

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF BIG RIVERS)	
ELECTRIC CORPORATION FOR THE)	CASE NO.
SIX-MONTH BILLING PERIOD ENDING JANUARY)	2017-00345
31, 2017, FOR THE TWO-YEAR BILLING PERIOD)	
ENDING JULY 31, 2017 AND THE PASS)	
THROUGH MECHANISM OF ITS THREE)	
MEMBER DISTRIBUTION COOPERATIVES)	

ORDER

On September 15, 2017, the Commission initiated a review of Big Rivers Electric Corporation's ("Big Rivers") environmental surcharge¹ as billed to its member distribution cooperatives ("Member Cooperatives")² for the six-month billing period August 1, 2016, to January 31, 2017, and the two-year billing period August 1, 2015, through July 31, 2017. The billing periods under review reflect the environmental compliance costs incurred by Big Rivers from June 1, 2016, through November 30, 2016, and June 1, 2015, through May 31, 2017.

Pursuant to KRS 278.183(3), at six-month intervals the Commission must review the past operation of the environmental surcharge. The Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable, and reconcile past surcharges with actual costs recoverable pursuant to

¹ Big Rivers was authorized to implement an environmental surcharge in Case No. 2007-00460, *The Application of Big Rivers Electric Corporation for Approval of Environmental Compliance Plan and Environmental Surcharge Tariff* (Ky. PSC June 25, 2008).

² The three Big Rivers distribution cooperatives are Meade County Rural Electric Cooperative Corporation, Kenergy Corp., and Jackson Purchase Energy Corporation.

KRS 278.183(1). At two-year intervals, the Commission must review and evaluate the past operation of the environmental surcharge, disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

The September 15, 2017 Order also initiated six-month and two-year reviews of the three Big Rivers Member Cooperatives' pass-through mechanisms³, as billed from September 1, 2016, to February 28, 2017, and September 1, 2015, through August 31, 2017, to their retail member customers, and August 1, 2016, through January 31, 2017, and August 1, 2015, to July 31, 2017, for large commercial and industrial customers with dedicated delivery points. For those customers with dedicated delivery points, the environmental surcharge bills are rendered without the one-month lag necessary for all other retail customers.

The Commission published a procedural schedule in the September 15, 2017 Order that provided for discovery, the filing of prepared testimony, intervenor testimony, and discovery on intervenor testimony. Big Rivers filed prepared direct testimony and responded to Commission Staff's requests for information. On January 3, 2018, Big Rivers gave notice that it and the Member Cooperatives believed that this case may be submitted for adjudication based on the existing record without a public hearing. Based on the absence of intervenors and finding good cause, the Commission will grant Big Rivers' request and decide this case on the evidence of record without a hearing.

³ The three Member Cooperatives were authorized to implement a pass-through mechanism in separate cases: Case No. 2007-00470, *Application of Meade County Rural Electric Cooperative Corporation for Approval of Retail Tariff Riders, Revised Tariffs and New Tariff, and for Approval of Amendment of Wholesale Agreement* (Ky. PSC Dec. 12, 2008); Case No. 2008-00009, *Application of Kenergy Corp. for Approval of Retail Tariff Riders and Revised Tariffs, Approval of Smelter Agreements, and Approval of Amendment to Wholesale Agreement* (Ky. PSC Dec. 12, 2008); and Case No. 2008-00010, *The Application of Jackson Purchase Energy Corporation for Approval of Retail Tariff Riders, Revised Tariffs, New Tariff, and Amendment of Wholesale Agreement* (Ky. PSC Dec. 12, 2008).

COMPLIANCE PLANS

The Commission has approved two environmental compliance plans for Big Rivers. Big Rivers' environmental compliance plan approved by the Commission in Case No. 2007-00460⁴ ("2007 Plan") consists of programs and costs associated with controlling sulfur dioxide, nitrogen oxide, and sulfur trioxide.⁵ The 2007 Plan included only operating and maintenance ("O&M") costs.⁶ Since Big Rivers' 2007 Plan does not include any capital projects or investments in utility plant, there is no rate of return on projects to be recovered through the environmental surcharge.

In Case No. 2012-00063,⁷ the Commission approved certain additions to the 2007 Plan relating to the Mercury and Air Toxics Standards rule ("MATS").⁸ The additions ("2012 Plan") involved installing activated carbon injection and dry sorbent injection systems, and emission control monitors at Big Rivers' Coleman, Wilson, and Green generating stations, and installing emission control monitors at Henderson Municipal Power & Light's Station Two generating station.⁹ The 2012 Plan includes

⁴ Case No. 2007-00460, *The Application of Big Rivers Electric Corporation for Approval of Environmental Compliance Plan and Environmental Surcharge Tariff*, (Ky. PSC June 25, 2008).

⁵ Direct Testimony of Nicholas R. Castlen ("Castlen Testimony") at 5.

⁶ *Id.* at 6.

⁷ Case No. 2012-00063, *Application of Big Rivers Electric Corporation for Approval of Its 2012 Environmental Compliance Plan, for Approval of Its Amended Environmental Cost Recovery Surcharge Tariff, for Certificates of Public Convenience and Necessity, and for Authority to Establish a Regulatory Account*, (Ky. PSC, Oct. 1, 2012).

⁸ Castlen Testimony at 6.

⁹ *Id.* at 6.

both the capital and O&M costs associated with these projects, as well as recovery of Big Rivers' actual costs incurred in Case No. 2012-00063, amortized over three years.¹⁰

Because of the termination of retail power contracts by two aluminum smelters, Big Rivers idled the Coleman station in May 2014 and does not plan to proceed with the installation of the MATS compliance equipment at Coleman at this time. Big Rivers states that if it decides to return the Coleman station to service, it will be required to complete the MATS projects prior to returning the Coleman station to service.¹¹

Big Rivers' environmental surcharge mechanism allows Big Rivers to recover costs related to the 2007 Plan (which includes only O&M costs) and the 2012 Plan (which includes both O&M costs and capital costs), less proceeds from by-product and emission allowance sales, plus or minus an ongoing cumulative over- or under-recovery adjustment.¹²

SURCHARGE ADJUSTMENT

Big Rivers is not requesting any additional over- or under-recovery of its environmental costs. Big Rivers states that the normal over/under recovery carry-forward element of its environmental surcharge mechanism is operating as intended.¹³ The Commission has reviewed and finds reasonable Big Rivers' calculation of its environmental surcharge costs, and further finds no need for any subsequent adjustments of Big Rivers' environmental costs as a result of this review.

¹⁰ Castlen Testimony at 6.

¹¹ *Id.* at 6.

¹² *Id.* at 6–7.

¹³ *Id.* at 10.

RATE OF RETURN

For the period under review in this proceeding, Big Rivers recovered capital costs associated with the 2012 Plan through its environmental surcharge mechanism. Big Rivers' Environmental Surcharge ("ES") Tariff provides that the rate of return on the environmental rate base is the weighted average debt cost for approved environmental compliance plan projects, multiplied by a Times Interest Earned Ratio ("TIER") factor. In accordance with its ES Tariff, Big Rivers determined the weighted average cost of debt and applied a TIER of 1.24 to the weighted average cost of debt to produce the monthly rates of return for the review period.

Big Rivers' ES Tariff provides that Big Rivers' monthly environmental costs should be based on actual costs and revenues for the current expense month. Due to monthly fluctuations in interest costs, Big Rivers determines the average cost of debt for the current expense month rather than using a historical average or forecasted amount. Big Rivers states that determining the average cost of debt for the current expense month ensures that the calculation accurately reflects the environmental costs associated with that expense month. The Commission has reviewed and finds reasonable Big Rivers' determination of the rates of return for each month of the review period.

RETAIL PASS-THROUGH MECHANISM

The three Member Cooperatives are not requesting any additional over- or under-recovery under their respective surcharge pass-through mechanisms. The Commission has reviewed and finds reasonable each of the Member Cooperatives' respective surcharge pass-through calculations and their determination that there were

no over- and under-recoveries for the review period covered in this proceeding. The Commission finds no need for any subsequent adjustments of the Member Cooperatives' pass-through amounts as a result of this review.

SURCHARGE ROLL-IN

Big Rivers is not proposing to incorporate any environmental surcharge amounts into its existing base rates at this time.¹⁴ Big Rivers states that it does not believe any environmental surcharge amounts need to be incorporated into its base rates in conjunction with this two-year review.¹⁵ Big Rivers states that this position aligns with the Member Cooperatives' request that the amount appearing on a customer's bill for environmental compliance charges represent the total portion of their environmental compliance charge, versus having a portion of those charges embedded in base rates. The Member Cooperatives' position on incorporating environmental surcharge amounts in base rates is unchanged from the previous two-year review.¹⁶ In that case,¹⁷ Big Rivers and the Member Cooperatives cited surcharge volatility, ongoing changes in environmental regulations, and transparency as reasons to not incorporate any environmental surcharge amounts into base rates.¹⁸ KRS 278.183 directs the Commission to incorporate surcharge amounts found just and reasonable in the utility's

¹⁴ Castlen Testimony at 10.

¹⁵ Response to Commission Staff's First Request for Information, Item 5.

¹⁶ *Id.*

¹⁷ Case No. 2015-00320, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Big Rivers Electric Corporation for the Two-Year Billing Period Ending July 31, 2015 and the Pass Through Mechanism of its Three Member Distribution Cooperatives* (Ky. PSC Mar. 31, 2016).

¹⁸ Case No. 2015-00320, Response to Commission Staff's Supplemental Request for Information from the Informal Teleconference on March 8, 2016, Item 1.

existing base rates, but only “to the extent appropriate.” The Commission has reviewed and finds reasonable Big Rivers’ recommendation not to incorporate environmental surcharge amounts at the present time.

IT IS THEREFORE ORDERED that:

1. The amounts billed by Big Rivers through its environmental surcharge for the periods August 1, 2016, through January 31, 2017, and August 1, 2015, through July 31, 2017, are approved.

2. The amounts billed by Jackson Purchase and Kenergy through their respective environmental surcharge pass-through mechanisms for the periods August 1, 2016, through January 31, 2017, and August 1, 2015, through July 31, 2017, for all customers with dedicated delivery points are approved.

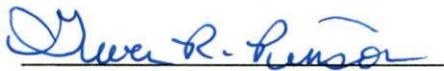
3. The amounts billed by the three Member Cooperatives through their respective environmental surcharge pass-through mechanisms for the periods September 1, 2016, through February 28, 2017, and September 1, 2015, through August 31, 2017, for all other non-dedicated delivery point customers are approved.

4. The rates of return determined by Big Rivers for each month of the review periods are approved.

By the Commission

ENTERED
FEB 27 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2017-00345

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